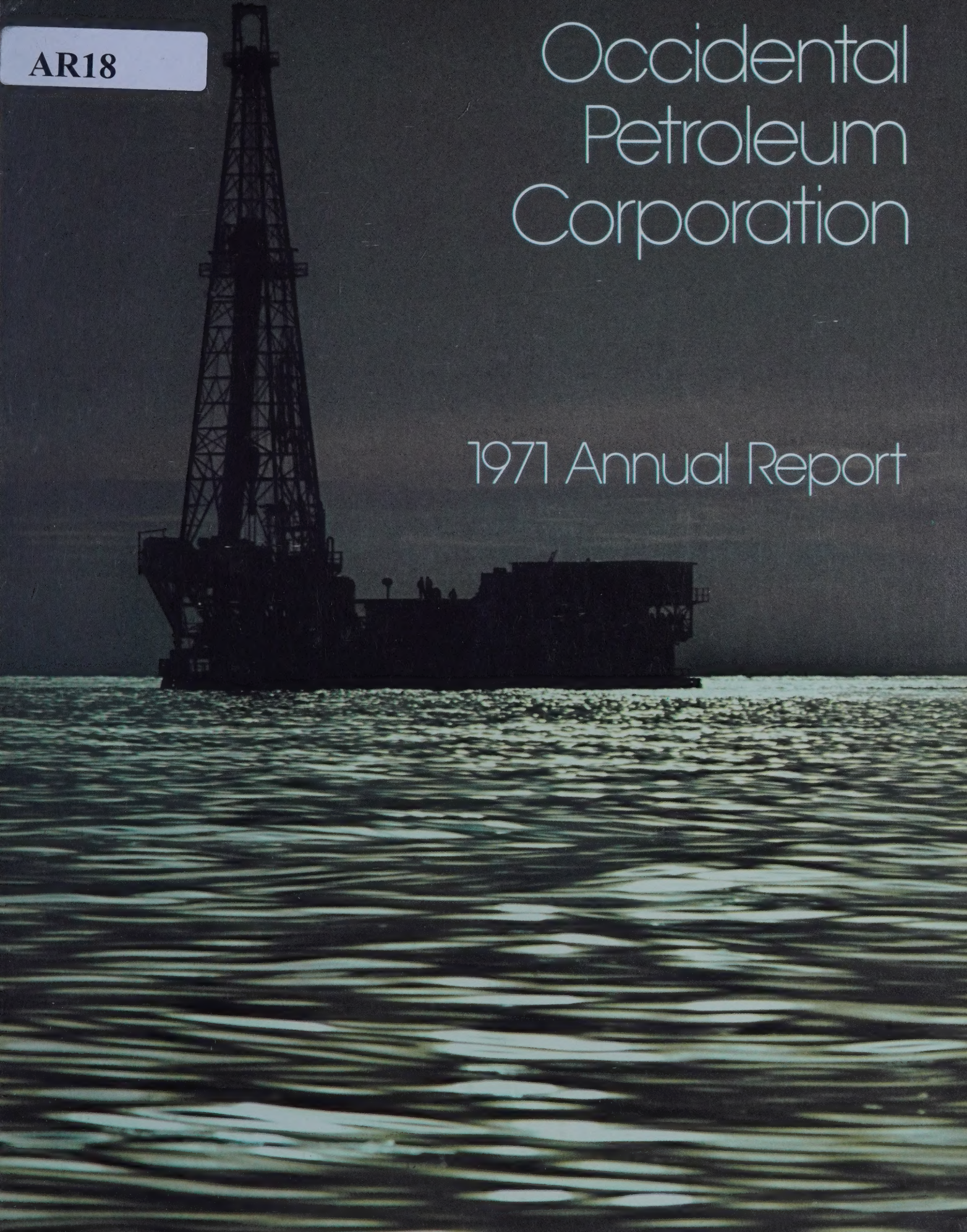


AR18

Occidental Petroleum Corporation

1971 Annual Report



Occidental Petroleum Corporation

One of the world's largest rigs with auxiliary tender-assist barge is depicted on our cover during drilling operations in south Lake Maracaibo, Venezuela, as Occidental Petroleum Corporation expands its worldwide oil exploration program. At least two such rigs will be at work on the lake during the next two years in the company's search for new reserves in Latin America

1971 Annual Report

Financial Highlights

	1971	1970	1969
Net sales and other revenues	\$2,635,208,000	\$2,385,662,000	\$2,059,098,000
Operating cash flow	\$ 150,606,000	\$ 282,044,000	\$ 247,512,000
Income before emergency fleet and extraordinary items, including sales of coal lease rights in 1970 and 1969*	\$ 39,913,000	\$ 169,599,000	\$ 174,835,000
Gain (losses) from emergency fleet	\$ (87,931,000)	\$ 5,635,000	
Extraordinary items	\$ (18,984,000)		
Net income (loss), including sales of coal lease rights in 1970 and 1969*	\$ (67,002,000)	\$ 175,234,000	\$ 174,835,000
Preferred stock dividend requirements	\$ 20,345,000	\$ 21,410,000	\$ 23,351,000
Net income (loss) applicable to common shares including sales of coal lease rights in 1970 and 1969*	\$ (87,347,000)	\$ 153,824,000	\$ 151,484,000
Net income (loss) per common share after extraordinary items and including sales of coal lease rights in 1970 and 1969* ¹	\$ (1.61)	\$ 2.92	\$ 2.97
Net income excluding sales of coal lease rights*		\$ 170,775,000	\$ 165,902,000
Net income per common share excluding sales of coal lease rights* ¹		\$ 2.83	\$ 2.80
Extraordinary items per common share ¹	\$ (0.35)		
Total assets at year-end	\$2,580,028,000	\$2,655,936,000	\$2,213,506,000
Additions to property, plant and equipment	\$ 216,927,000	\$ 231,783,000	\$ 343,696,000
Shareholders' equity ²	\$ 839,359,000	\$ 973,788,000	\$ 859,847,000
Dividends paid per common share			
Cash	1.00	0.99	0.89
Stock		1%	1%
Average number of common shares outstanding during year	54,211,000	52,762,000	50,953,000
Number of common shareholders at year-end	320,000	302,000	255,000
Number of preferred shareholders (\$8.00, \$4.00, \$3.60, \$2.16) at year-end	48,000	48,000	46,000
Number of employees	33,000	33,000	27,500

*See dual presentation and special note on consolidated statement of operations.

¹Based on average number of shares outstanding.

²See consolidated statement of shareholders' equity.

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Corporate Highlights

1971 Gross Revenues Highest in Company's History

Consolidated net sales and other revenues reach record \$2.6 billion compared to \$2.4 billion for 1970. Operating profit amounts to \$40 million before \$88 million charge-off for emergency tanker fleet and additional \$19 million net for other extraordinary items. Operating cash flow totals \$151 million.

Occidental in Strong Financial Position Despite Adverse Results

Company ends year with \$237 million cash plus \$121 million in unused committed bank lines and with substantial open lines of credit available. Total assets \$2.6 billion and shareholders' equity \$839 million. Occidental expects to be back operating profitably in 1972.

Company Continues Program of Capital Expansion

Capital expenditures in 1971 amount to \$217 million as compared with prior year's total of \$232 million.

High Crude Oil Production Rates Continue at Company's Oil Fields in Libya

Total of 214,037,000 barrels of crude oil produced from the wells on Occidental's concessions in Libya during 1971 (daily average 586,400 barrels) comes within eleven per cent of 1970's record of 240,661,000 total barrels (daily average 659,000 barrels).

Libyan Government Approves Twenty-Year Pipeline Pact with AGIP

New tariff revenue added as Libyan government approves long-term agreement for crude oil produced in Libya by Italy's national oil company, AGIP, to be transported and shipped through Occidental's pipeline and terminal facilities. Throughput of about 100,000 barrels per day expected to reach 300,000 barrels per day ultimately. Injection of AGIP's gas in Occidental oil field, also approved, will increase pressure and ultimate oil recovery from company's Concession 103.

Shipments of Gas Liquids Products Begin as Plant Completed

New gas liquids facility completed in Libya adding income from production and sale of butane, naphtha and propane. First commercial export shipments of butane and naphtha leave plant in January, 1972. Propane shipments scheduled to begin in May, 1972.

Nigerian Offshore Licenses Won in Keen Competition

Oil prospecting rights covering 709,000 acres offshore Nigeria awarded to Occidental on October 19, 1971, after spirited competition with several major petroleum companies and national oil companies of various countries. Seismic and geophysical work completed with drilling programmed to commence late in March, 1972. Large semi-submersible rig to be used in probe for new reserves.

Oil drilling platform being assembled for Occidental's exploratory program on south Lake Maracaibo in Venezuela. Upper right, single well platform in place awaiting installation of drilling deck. Other scenes show drilling deck being lifted into place by barge crane, and derrick (upper left) about to be fastened to drilling deck

Occidental First Company to Obtain Oil Rights from New Peru Government

Rights to 2,881,000 acres in Oriente region on Peru-Ecuador border awarded under pioneer production-sharing contract with Peru's state oil company, Petroperu. Seismic and geophysical work progressing rapidly with exploratory drilling scheduled to begin in mid-1972.

Exploratory Program Under Way in South Lake Maracaibo, Venezuela

Company's first well spudded and drilling ahead toward objective on Block E after Occidental awarded three blocks (A, D and E) covering 375,000 acres in prolific Maracaibo basin. Service contract agreements with Venezuelan national oil company signed and executed July 29, 1971.

Occidental Group Awarded North Sea Oil Production License

International group, of which Occidental is the operator and 36.5 per cent owner, awarded 316,000 acres in British North Sea with geophysical prospects similar to those in nearby areas where major discoveries have been made by other companies. Drilling scheduled to start in May, 1972.

Governmental Authority Granted to Build Refinery in United Kingdom

Permit to construct 120,000 barrels per day refinery on Canvey Island in Thames River estuary obtained from British government. Occidental refinery expected to supply energy markets in greater London area and provide flexibility of supply to company's retail and industrial outlets throughout England.

Coal Strike Ends with Signing of New Three-Year Labor Contract

Improved productivity anticipated by Occidental's coal division as three-year agreement with United Mine Workers of America brings return to normal labor conditions. Two new Island Creek Coal Company mines opened in 1971 with more new mines planned to go on stream in 1972.

Solid Profit Gain Posted in 1971 by Agricultural Chemicals and Fertilizers

Oxychem's profits improve considerably over 1970 with long-promised restoration of fertilizer business becoming a reality. Higher profit margins achieved on wholesale, retail and export levels.

Permian Turns in Excellent Oil Marketing Performance in 1971

Domestic crude oil marketing division maintains high volumes and profits in 1971. Transports and markets average of 452,000 barrels of oil per day through 4,879 miles of company-owned pipelines.

Canadian Operations Combined to Form New Company

Canadian Occidental Petroleum Ltd. (82 per cent owned) formed by combining Occidental subsidiary, Jefferson Lake Petrochemicals of Canada Ltd., four Hooker chemical plants and Occidental's Canadian oil and gas properties. New company closes first year with net profit of \$3.5 million.

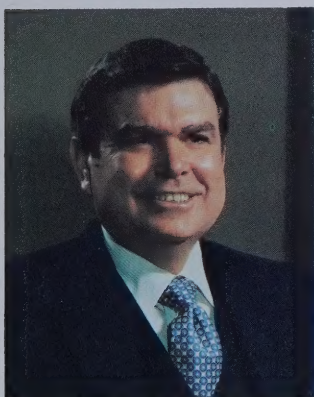
New Research Process Produces Oil from Municipal Solid Wastes

One barrel of low-sulphur oil can be obtained from one ton of unsorted refuse, including garbage, in new pilot plant process developed at Occidental's Garrett research and development center in La Verne, California. Synthetic fuel gas, clean glass, metals and char recovered from trash. Garrett's coal-to-oil and coal-to-gas projects progressing favorably.

To the Shareholders:



Dr. Armand Hammer, Chairman of the Board,
President and Chief Executive Officer



W. Marvin Watson, left, Executive Vice President for
Corporate Affairs; Robert J. Caverly, Executive Vice
President for Operations

The year 1971 saw your company's affairs influenced by a number of factors beyond our control and outside the normal course of our business which greatly affected profits. These included losses from an industry-wide coal strike, unusually depressed petroleum prices in Europe during the last half of the year, reduced demand for Libyan crude and oil tankers, and depressed economic conditions which caused the disappointingly poor performance of our chemical division's operations.

For the year, your company recorded an operating profit of \$40 million before tanker charges and extraordinary items. After charging off \$88 million against 1971 operating income for the emergency tanker fleet and an additional \$19 million in extraordinary charges (net of approximately \$10 million of extraordinary gains) to cover the company's exposure with respect to foreign currency revaluations and other writeoffs, your company reported an operating loss for the year of \$48 million and a net loss of \$67 million compared with a \$175 million net profit in 1970.

Operating cash flow for 1971, while considerably below the \$282 million for 1970, still amounted to the substantial sum of \$151 million, the fourth highest for any year recorded for your company.

Record Gross Revenues

Consolidated net sales and other revenues of \$2.6 billion for 1971 were the largest in the company's history exceeding \$2.4 billion recorded the prior year. After deducting preferred dividends of \$20.3 million in 1971 and \$21.4 million in 1970, primary loss per common share was \$1.61 in 1971 compared with primary earnings per common share of \$2.92 in 1970. The 1971 per share loss before extraordinary items was \$1.26 and there were no extraordinary items in 1970.

It is a very great disappointment to report this loss to you, especially after Occidental's remarkable record of more than a decade of unbroken increases in revenues and profits under present management. However, we emphasize that the accomplishments of the past year cannot be judged by our income statement alone. Throughout this report, particularly in the oil and gas section, we will be discussing many areas where your company has made great forward strides which your management believes will in the future bring about a return to former profit levels.

Company Awarded Strategic Oil Rights

As discussed later in this report, during the past year Occidental has been awarded strategic exploration and development rights in four of the most sought-after oil provinces in the world — Lake Maracaibo, Venezuela, where we are presently drilling; the Peruvian Oriente, offshore Nigeria and the British North Sea. We expect that each of the latter three areas will be tested by drilling during the first half of 1972.

The North Sea petroleum rights, covering 316,000 acres, have just been awarded to Occidental which is serving as operator for an international group of companies. Our first rig is scheduled to begin drilling operations in May, and our second rig should be ready by November, 1972.

Emergency Tanker Fleet

Our emergency tanker fleet was chartered in 1970 and early 1971 to provide additional capacity against a possible shut-down of production in Libya. While we had experienced some losses from the fleet operation by the end of the third quarter of 1971, we anticipated that the worldwide tanker market would improve in the 1971-1972 winter season.

There was a temporary improvement in tanker rates; however, the improved rates did not hold largely due to a warm winter in Western Europe coupled with a slowdown in economic activity. Also, there was no shutdown in Libyan oil production. These factors led to an oversupply of petroleum products with distressed prices in heating and fuel oil. As a consequence, it was decided to write down the cost of the emergency fleet to current market, providing a reserve against possible future losses.

Financial Condition Strong

Despite our 1971 losses, the company's financial condition is strong and our year-end balance sheet shows a net working capital of \$238 million with shareholders' equity of \$839 million. We have maintained our liquid position and during 1971 reduced our senior funded debt by \$89 million. The tanker write-downs include a reserve of \$65 million for possible future losses, principally for the years 1972 and 1973, which could be a source of future profits if tanker rates improve.

Thus, with reserves already provided against marine operations, coal mines back to normal conditions, increased Libyan production and an upturn indicated in domestic chemicals, your company expects to return to a profitable level of operations in 1972.

Dividends On Common Shares Affected

Cash dividends paid on common shares during 1971, commencing with the quarterly dividend paid in January through the quarterly dividend paid in October, were at the rate of 25 cents per quarter, totaling one dollar per share for the year, unchanged from 1970. After the announcement of the company's loss for the third quarter of 1971, the quarterly cash dividend paid in January, 1972, was halved to 12½ cents. Following the year-end writeoffs, cash dividends on the common shares have been temporarily suspended. Quarterly dividends on all series of preferred stocks were paid at their regular rates during 1971 and are being continued.

Oil and Gas Division

Developments in Libya

Effective March 20, 1971, your company, along with all other producing companies in Libya, signed a five-year agreement for posted prices and tax rates with the Government of the Libyan Arab Republic. We believe that this agreement should settle the basic problems of posted prices and tax rates throughout its term except for the matter of adjustments to cover currency revaluations.

Recently, the major oil companies and the Gulf States group of OPEC countries (which does not include Libya or Venezuela) settled the currency revaluation issue by an 8.49 per cent increase in posted prices. The question of possible participation in the concessions has been raised by the OPEC countries, but so far is only in the discussion stage. Negotiations are progressing with the Libyan government and we believe these issues will be settled soon on a mutually satisfactory basis.

Production and Sales

Oil production for the year 1971 totaled 214,037,000 barrels or an average of 586,400 barrels per day, a drop of eleven per cent from 1970 production of 240,661,000 barrels or 659,000 barrels per day. Total production of all Libyan producers declined during 1971 by 16.9 per cent.

The decrease in production levels was due primarily to the drastically reduced freight rates during the last half of the year which eliminated the price advantage that short-haul Mediterranean crudes have traditionally had over long-haul crudes from the Middle East. Compared with the second half of 1971, our producing rates have increased, averaging 572,000 barrels per day for January and 622,561 barrels per day for February, 1972.

AGIP Agreement Approved

The Libyan government has approved a 20-year agreement between Occidental and AGIP, the Italian government oil company, to transport and ship AGIP's oil production through Occidental's pipeline and terminal facilities and to inject and store AGIP's gas in our Intisar D field in Concession 103. This will furnish significant revenues for your company, and the injected gas will improve the ultimate oil recovery from the field. AGIP has now begun oil production at a rate which should reach 100,000 barrels per day later this year and ultimately reach 300,000 barrels per day.

The oil throughput agreement with Standard Oil Company of Indiana continues to generate revenues and we are actively negotiating with other companies for similar agreements to transport oil through our pipeline and terminal.

Gas Liquids Plant Completed

Our gas liquids plant in Libya was completed in January, 1972, with export shipments of butane and naphtha produced at this plant also beginning in January. We expect propane shipments to start in May of this year. The shipments from this plant should add considerably to your company's Libyan profits.

On our Concession 102, we have concluded a unitization agreement with two other companies producing from the same field. This agreement, which has been approved by the Libyan government, will allow uniform pressure maintenance for the entire field and should result in increased ultimate oil recovery.

Good Relations with Libyan Government

Occidental's relations with the government of Libya are good, and we are operating in a spirit of mutual respect.

ENERGY: Yardsticks of Management Performance

Occidental Petroleum Corporation's five-year average return on equity including the complete year of 1971 is 13.4 per cent which compares favorably with the Forbes energy industry median of 11.9 per cent as shown below. The fol-

lowing has been extracted from a chart that appeared in the Forbes January 1, 1972, issue entitled "24th Annual Report on American Industry" which included Occidental's reported figures to that date.

	PROFITABILITY								GROWTH						
	Five-Year Return on						Latest 12-Month Return on		Five-Year Annual Sales Growth				Five-Year Annual Earnings Per Share Growth		
	EQUITY			TOTAL CAPITAL					Rank		Rank		Rank		
	Rank		Rank												
	Percent	In This Industry	Among All Companies	Percent	In This Industry	Among All Companies	EQUITY Percent	TOTAL CAPITAL Percent	Percent	In This Industry	Among All Companies	Percent	In This Industry	Among All Companies	
Occidental	19.4%	3	69	11.5%	5	179	10.3%	6.5%	39.4%	1	16	20.5%	2	27	
Industry Medians	11.9%			9.6%			10.5%	7.4%	9.7%			4.1%			

Explanation of yardsticks:

1. *Five-Year Return on Equity* is the average profit management made on stockholder investment over five years, a relatively long period.
2. *Five-Year Return on Total Capital* is the average earnings of the last five years.
3. *Latest 12-Month Return on Equity* for the most recent 12-month reporting period compares with the five-year average and gives the recent trend.
4. *Latest 12-Month Return on Total Capital* for the most re-

cent 12-month reporting period compares with the five-year average and gives the recent trend.

5. *Five-Year Annual Sales Growth* and *Five-Year Annual Earnings Per Share Growth* are based on five-year annual compounded rates. Earnings growth is computed the same way as sales growth, except that reported earnings per share are used instead of sales. Extraordinary gains and losses are not included in earnings. Also, base figures are generally not restated because of mergers or acquisitions.

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Concerning the Libyan government's intent on the nationalization of American oil interests, Colonel Mu'Ammar El-Gathafi, premier and president of the Revolutionary Command Council, stated his position very clearly in an interview with U.S. newscaster Mike Wallace which was broadcast February 27, 1972, on the "60 Minutes" CBS television program. When asked by Mr. Wallace about the nationalization of British Petroleum, owned 48 per cent by the British government, Col. El-Gathafi replied that British Petroleum had been nationalized "for political reasons."

In response to Mr. Wallace's direct question, "Then you have no intention of nationalizing Esso, you have no intention of nationalizing Occidental?" Col. El-Gathafi responded, "Of course not. We have no intention of nationalizing them."

INTERNATIONAL EXPLORATION

As previously noted, Occidental has taken a giant step in its worldwide search for new oil and gas reserves through the execution of important contracts for exploratory acreage and by commencing operations in four of the world's major oil basins in Venezuela, Nigeria, Peru and the British North Sea. All of these were acquired in keen competition involving most of the world's important private and governmental oil interests. In addition, we have submitted bids for exploratory tracts in Saudi Arabia.

Lake Maracaibo, Venezuela

On July 29, 1971, agreements were executed between Occidental and the Venezuelan national oil company, Corporación Venezolana del Petróleo (CVP), covering the three service contract areas awarded to your company in south Lake Maracaibo. These three blocks, A, D, and E, total 375,000 acres in the southern half of the prolific Maracaibo basin. More than 38 billion barrels have been discovered to date by other companies in the northern half of the lake where current production is approximately 2.5 million barrels per day.

Five blocks were offered for sealed bidding and the Royal Dutch Shell group and Mobil Oil Corporation were each awarded one block. These are the first new areas opened for exploration in Venezuela during the past 14 years, and, until now, the southern half of this basin has remained virtually unexplored.

At year-end, Occidental had two large platform rigs with auxiliary tender-assist barges drilling in south Lake Maracaibo. Our first well in Block E is drilling on a large structural feature delineated by our extensive marine seismic program. In January, 1972, the contractor's barge tender operating at our second location on Block A sank during an unusually severe storm. Fortunately, the rig was not damaged. A replacement barge is being brought into the location and drilling will resume shortly. We expect to keep at



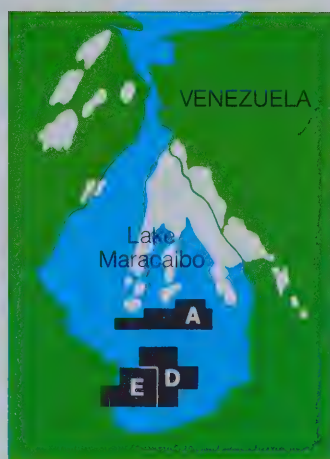
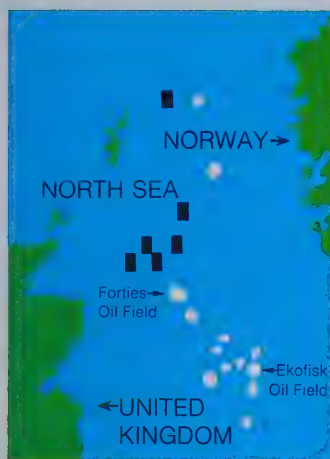
Self-propelled semi-submersible drilling rig will be used in North Sea



Non-explosive air guns spare marine life in offshore Nigeria seismic operation

Geophysical exploration program in dense Amazon jungle area of Peru's Oriente region requires continual drilling of explosive shot holes with portable drill





Maps indicate Occidental's exploratory acreage in the North Sea, Venezuela, Nigeria and Peru. Oil and gas fields and discoveries shown in white

least two drilling rigs continuously employed on the lake over the next two years.

Offshore Nigeria

On October 19, 1971, oil prospecting licenses were signed with the Nigerian government on four large offshore blocks in the heart of the Niger River Delta area. The timing was particularly fortunate since the government recently announced that no more concessions would be awarded to private companies.

Nigerian oil has received ready acceptance in world markets because of its low-sulphur content and "crossroads" location in relation to markets in North America and Europe. Since early 1970, Nigeria's production has nearly tripled to about 1.7 million barrels per day. Much of this new production comes from offshore areas similar to our blocks.

By November, we had already completed and processed over 2,300 line-miles of marine seismic data from the 709,000 acres covered by the licenses and had located several very encouraging features. A large semi-submersible drilling rig has been contracted for with drilling scheduled to begin late in March, 1972. Nigeria, with a population of 50 million, is the largest country in Africa and has a very stable government.

Peru Oriente Region

On June 22, 1971, Occidental became the first company to be awarded petroleum rights by the new government of Peru. Our production-sharing contract with the state oil company, Petroperu, covers exploration and development rights to 2,881,000 acres in the Oriente region of the upper Amazon basin of Peru.

Occidental's area of interest lies within a zone 30 miles wide along the Peru-Ecuador frontier, stretching more than 140 miles from the foothills of the Andes eastward into the Amazon basin. The area lies between major petroleum discoveries in Ecuador to the north where more than five billion barrels of reserves have been established by Texaco, Gulf, Standard Oil Company of California and others, and Petroperu's two recent successful wildcats some 100 miles and 75 miles, respectively, to the southeast. Petroperu's first

well tested at 3,600 barrels per day and the second well at some 1,650 barrels per day of good quality, low-sulphur oil.

Seismic Work Under Way

Two seismic parties are operating in the Oriente for Occidental and a contract has been signed with Parker Drilling Company of Tulsa, Oklahoma, for a drilling rig designed to be moved by helicopter over the jungle area from one drill-site to another. We expect equipment will begin to arrive at our operations base camp on the Corrientes River in April or May with drilling to commence soon thereafter.

Exploration authorities of Petroperu have reported in the international press that the Oriente basin located east of the Andes mountains in Peru has as great a potential as Venezuela. Six other international oil company groups have already followed Occidental's lead and have signed production-sharing contracts with Petroperu, making the Oriente the most active exploration area in Latin America.

United Kingdom North Sea

The North Sea has become one of the most sought-after petroleum exploration areas in the world, as multi-billion barrel discoveries by British Petroleum, Shell and the Phillips groups have confirmed the area to be a major new oil province. Large reserves of low-sulphur oil, rapidly-growing European markets and political stability have attracted all of the world's important oil companies to the North Sea.

On March 15, 1972, the Occidental group, of which your company is operator and a 36.5 per cent owner, was awarded a petroleum production license by the British government covering about 316,000 acres in the North Sea. The group includes British subsidiaries of Getty Oil Company and Allied Chemical Corporation, and Thomson Scottish Associates Limited. The license comprises six blocks. Four of these contain geophysical prospects similar to those on which major discoveries have recently been made by other companies in the North Sea.

Our group utilized approximately 20,000 miles of reflection seismic data as the basis for our bids submitted in 1971. An intensive drilling campaign will begin shortly with our first rig expected to move on location in May and our second, a

giant self-propelled semi-submersible rig currently under construction, scheduled to start drilling in November.

Saudi Arabia Bids Submitted

Saudi Arabia, with reserves estimated above 145 billion barrels, contains the largest known petroleum reserves of any country in the world. Occidental submitted a bid for joint venture concessions with the Saudi Arabian government company, Petromin, on a large acreage block on the Arabian desert. We are awaiting results of the bidding.

In December, 1971, Petromin announced that Arabian American Oil Company (Aramco) had made a significant discovery on a large structure located adjacent to the parcel on which Occidental bid. According to the government, this structure may extend across the Aramco boundary and could lie partly within the acreage sought by your company.

Other International Activities

In the Caribbean, Occidental retains its extensive lease positions offshore Nicaragua, Jamaica, Honduras and Trinidad and anticipates exploration drilling by others on or near our holdings during 1972. In Ghana, following the discovery well in 1970, two wells which did not find oil or gas in commercial quantities have been drilled and abandoned. Signal Oil and Gas Company, the operator for the group which includes Occidental, Standard Oil Company of Indiana and Standard Oil Company of California, plans additional exploration on the 1.5 million-acre offshore concessions.

We are continuing to hold our exploration licenses covering 1.28 million acres off the south coast of Sierra Leone, West Africa. Two shallow wells were drilled and abandoned during 1971 on the concessions we held offshore Peru. After further evaluation, these concessions have been relinquished back to the government. In the Union of Arab Emirates (Trucial States) area offshore from the Arabian peninsula, the claims by another operator affecting certain concession rights held by us have not yet been resolved.

UNITED STATES OIL AND GAS ACTIVITIES

During 1971, your company participated directly in the drilling of 74 exploratory and development wells resulting in 22 oil wells and 10 gas wells including two discoveries.

Louisiana Onshore and Offshore

Oil and gas in five productive zones were discovered on the North Simon Pass prospect in St. Martin Parish, Louisiana. Occidental owns 100 per cent of this discovery covering 1,250 acres, with production expected to begin in the second quarter of 1972. Three dual zone wells have been completed with initial daily production anticipated at approximately 1,500 barrels of oil and 17 million cubic feet of gas. Development drilling on this prospect is continuing.

An important extension oil discovery was completed in the West Potash field, Plaquemines Parish, Louisiana, where your company holds a 31 per cent interest in a 3,100-acre lease block. The dual zone discovery well tested at a combined rate of 788 barrels of oil and 481,000 cubic feet of gas per day. In addition, two dual zone development wells have

been completed with further drilling proceeding in the field. Offshore development drilling at Shipshoal Block 225, where your company owns a 17.8 per cent interest, is being carried out from two platforms. Ultimately, 36 oil and gas wells will be programmed, with production expected to commence in 1973. Production at Shipshoal Block 222, from 29 separate zonal completions in 15 wells, continues ahead of early forecasts.

Los Angeles Basin

At Occidental's East Beverly Hills field, average daily gross production for 1971 was maintained at about 10,900 barrels of oil and 25.8 million cubic feet of gas per day through continued development drilling and pressure maintenance by water floodings. There are now 37 producing wells and six injector wells with additional drilling contemplated throughout the year.

International Oil Marketing, Refining and Transportation Division

Sales of petroleum products to customers during 1971 totaled 80,279,000 barrels. Petroleum product prices in Europe were generally at a high level in the first part of 1971 but declined sharply during the latter part of the year with the exception of gasoline prices which remained relatively stable throughout Europe during the year. Continuing emphasis is being made upon expanding your company's retail sales. All of our retail gasoline operations in the United Kingdom, West Germany, Belgium and Holland continued to show improvement during 1971. Further expansion of these outlets is planned for the future.

The company's Antwerp, Belgium, refinery operated at high capacity during 1971 refining approximately 100,000 barrels per day. Our two refineries in West Germany also operated at capacity during the year. These two refineries, which are primarily involved in bitumen (asphalt) production, have a combined capacity of 18,000 barrels per day. Occidental has a substantial share of the bitumen market in West Germany, Belgium and Holland.

At year's end, subsidiaries of your company owned or controlled shipping tonnage of about 2,225,000 deadweight tons. A portion of this shipping is used to haul our own crude oil production and petroleum products.

Authority Granted to Build Refinery in U. K.

In November, 1971, the British government granted final authority to Occidental to build a 120,000 barrels per day refinery at Canvey Island 30 miles east of London. This extremely valuable refinery permit had been long awaited and had been the subject of intensive negotiations with various sections of the British government in order to assure minimum ecology hazards. When this refinery is constructed, it should add considerably more flexibility of supply to our British subsidiary and place Occidental in an excellent position to supply the growing greater London energy market. The importance of this refinery permit is greatly enhanced



Above, one of company's many modern new service stations in West Germany dispensing OXY brand gasoline. Lower left, liquid petroleum gas (LPG) tower at Occidental's 100,000 barrels per day RBP refinery in Antwerp, Belgium. Lower right, Oxymin engineer surveys exploration drill holes on copper mining property located near Miami, Arizona



by the award to the Occidental group of the six North Sea exploratory blocks mentioned previously. The advantages of having a primary source of low-sulphur, good quality oil so close to a major metropolitan area are obvious.

Domestic Crude Oil Marketing Division

In light of prevailing industry conditions, The Permian Corporation, Occidental's domestic crude oil marketing subsidiary headed by Thomas D. Jenkins, president, turned in an excellent performance for 1971. Permian's earnings for 1971 exceeded those of 1970. The profit increase reflects Permian's successful programs to cut expenses and increase operational margins plus additional service-type business from selling and trucking fresh water and disposal of oil field wastes.

Permian purchases oil from about 20,000 active leases in 15 states. Crude oil handled during 1971 averaged 452,000 barrels per day through facilities which include 4,879 miles of pipelines with throughput capacity totaling about 660,000 barrels per day, approximately 390 trucks and tank trailers plus truck and barge terminals and storage facilities.

Pipeline, Trucking Systems Expanded

Crude oil prices remained stable throughout 1971 but at a level which did not provide enough incentive to stimulate drilling activity in the areas in which Permian operates. To maintain volume levels, Permian continued its expansion of pipeline and trucking systems, and 25 miles of additional gathering lines were constructed in 1971 in the prolific Sale Ranch area of West Texas.

The pipeline into the Big Wells field in South Texas, constructed in 1970, is presently handling a volume of crude 50 per cent above the throughput projected last year, and the field continues to expand. Construction of a new 23-mile pipeline into the Slocum Field of East Texas is scheduled for completion early this year to provide an outlet for low-gravity crude oil produced in that area.

Minerals Division

Your company's minerals division, Occidental Minerals Corporation, (Oxymin), headed by Paul A. Bailly, concentrated all its efforts in 1971 in the U.S., Canada and Australia.

Additional acreage was acquired near Carthage, Tennessee, two miles from the area of our previous zinc discovery, and we now control approximately 10,000 acres with more lands being optioned. Wide-spaced drilling was initiated late in 1971 to evaluate this new area for the possible existence of additional flat-lying zinc deposits similar to that found previously.

The development drilling program at Oxymin's copper discovery near Miami, Arizona, continued until 22 wide-spaced drill holes were completed by mid-1971 of which 15 have

Extension of Permian's main transmission pipeline which serves Big Wells oil field in Texas shown while under construction during 1971

Coal division's new Pond Fork mine in southern West Virginia supplies fuel for steadily-growing electric utility industry



intercepted minable copper oxide mineralization. Metallurgical tests indicate that excellent recovery may be obtained through a hydrometallurgical process which would avoid pollution resulting from smelter treatment. A preliminary economic evaluation indicated further work was justified. Close-spaced drilling was started in November, 1971, to delineate in detail the grade, tonnage and geometry of this deposit.

Geological and geophysical surveys at a large copper-molybdenum geochemical anomaly staked in 1970 in the Yukon Territory have outlined a target which we plan to drill during the summer of 1972. Reconnaissance for other copper-molybdenum deposits in the Yukon and New Brunswick outlined eleven attractive geochemical anomalies which were staked and will be further evaluated in 1972. Reconnaissance efforts initiated in 1970 have resulted in selection of the Karangi area in New South Wales, Australia, as an area of interest. We now control approximately 77,000 acres, and detailed evaluation in this area is scheduled to commence later this year.

Coal Division

Production, sales and profits of our coal division, Island Creek Coal Company, declined substantially in 1971 compared with 1970. Including company-operated joint venture mines, coal production and sales during 1971 amounted to 22.9 million tons and 25.4 million tons, respectively, compared with 29.7 million tons produced and 31.9 million tons sold during 1970.

The drop in 1971 tonnage was largely due to the industry-wide strike which closed down the mines for almost seven weeks during October and November, reducing Island Creek's planned production by about 15 per cent with an impact on profits estimated at approximately \$11 million. Prior to the strike, the industry had undergone an extended period of labor unrest and unauthorized work stoppages which adversely affected productivity and earnings.

Other factors which contributed to reduced production and increased costs during the past year included the unexpectedly severe effect of the 1969 Federal Coal Mine Health and Safety Act on mining efficiency and an acute shortage of experienced mine personnel.

Stable Labor Conditions Expected

With a new three-year labor contract, Island Creek's management looks forward to an extended period of relatively stable labor conditions. Further, we expect production to improve as our employees and the Bureau of Mines personnel gain experience in complying with and interpreting the mine safety act and as extensive company-sponsored training programs ease the skilled labor shortage. Improvement in productivity is the key to larger profits in coal production and your company's management plans to provide our mine managers with stronger incentives to raise productivity.

The added costs of the new union contract can, for the most part, be recovered through escalation clauses in our long-term coal sales contracts, and the President's Price Commission has approved price increases which cover a substantial part of them. We anticipate that prices will be

adjusted further and, with the expected improvements in productivity, look forward to production volumes and earnings this year approaching the record levels of 1970.

New Mines Contribute to Profits

In 1971, Island Creek completed the Virginia Pocahontas No. 3 mine in the Virginia Pocahontas division and the No. 9 mine in the West Kentucky division. These mines will contribute to profits for the entire year 1972. Also in 1972, Ohio No. 11 and Hamilton No. 2 mines are expected to come on stream, with development work continuing on Virginia Pocahontas No. 4 and Pevler No. 1 mines. Your company is continuing its expansion program of new mines to serve the utility, metallurgical, industrial and export markets.

Under the direction of our Garrett Research division, a project to determine the feasibility of coal mining in an oxygen-free atmosphere is well into its second phase which involves miners performing routine mining operations while wearing space-type protective support suits. If successful, this would virtually eliminate the possibility of explosions and dust inhalation. On completion of the second phase of the test, the next step will be to seal off a portion of the mine and replace the air with nitrogen for testing in actual no-oxygen conditions.

U.S. bituminous production in 1971 was an estimated 555 million tons, down from 603 million tons in 1970. Total coal used and exported was 553 million tons, a decline of 35 million tons from 1970. The reduced consumption reflects both the business slowdown in this country and reduced steel demand abroad. Inventories in customers' hands, built up in anticipation of the strike, have returned to a near-normal position. We anticipate firm and stable market conditions for Island Creek's coal in 1972, particularly since approximately 70 per cent of our production is sold under long-term contracts.

Extensive Coal Reserves

Island Creek's coal reserves consist of approximately 3.3 billion tons of steam and metallurgical coals, and an additional 800 million tons are contained in nearby deposits which our engineers believe can be more economically mined by Island Creek than by others. Island Creek's reserves include more than half a billion tons of low volatile metallurgical coal from our Pocahontas fields of western Virginia, considered by many experts to be the finest metallurgical coal in the world. It commands a premium price in world markets, and much of this production is shipped to Japan under long-term contracts.

Our coal division is headed by Island Creek's president and chief executive officer, Stonie Barker, Jr., who is optimistic about the future growth of the U.S. coal industry in general and Island Creek in particular. This view is shared by James L. Hamilton, retired chairman and former chief executive officer of Island Creek, who has been appointed chairman of the executive committee of our coal division. We feel confident that the constantly increasing energy requirements and the worldwide demand for metallurgical coals

will provide many opportunities to expand production through the opening of new mines.

Chemical Division

Over-all sales of Occidental's chemical group consisting of the three divisions — Hooker Chemicals and Plastics, Oxy Metal Finishing, and Agricultural Chemicals, Fertilizers and Sulphur — increased by approximately five per cent above 1970. However, 1971 profits were considerably below last year as the general economic slowdown, both in the United States and abroad, continued to affect operations adversely during the entire year. The chemical group looks forward to substantial improvement in earnings as the generally predicted upswing in the economy accelerates during 1972.

HOOKER CHEMICALS AND PLASTICS DIVISION

The chemicals and plastics division operated at disappointing levels during 1971 in line with the economy in general and the chemical industry in particular. Although sales increased by seven per cent over 1970, competitive pressures kept prices down, while increases in labor and energy costs reduced profit margins sharply.

Also, conforming with the new government regulations and the rising public awareness of pollution problems, your company — along with the rest of the industry — has been required to make substantial investments in pollution control equipment. The operation of such equipment after its installation is another factor causing increased costs.

Engaged In Many Projects

The division is engaged in a number of projects to expand into new areas and modernize present facilities. In Hooker's chlorine and caustic business areas, the conversion of the diaphragm cell circuits from graphite to Hooker-designed dimensionally stable metal anodes has been completed at Hooker's plants in Taft, Louisiana, and Montague, Michigan. These metal anodes represent the first major breakthrough in caustic-chlorine technology for many years and greatly reduce operating costs by substantially reducing power requirements with longer cell life.

Completion of our third sodium chlorate plant in Taft is expected by late 1972. This will give Hooker access to the expanding south coast pulp and paper industry and greatly increase its market capability in this important product line.

New Unit Ready To Go On Stream

At Hooker's main chemical complex in Niagara Falls, a new continuous fused caustic soda unit is about to go on production. Also, a new facility has been authorized for construction which will be used for the production of specialty chemicals including Hooker's fire retardant additives for plastics, Dechlorane 602 and Dechlorane 604.

Our pulp mill services department, organized last year to provide technical assistance to the pulp and paper industry, has been highly successful in developing business for Hooker's newly developed single-vessel-process chlorine dioxide generators (SVP). Eight SVP installations are now



Upper left, facility at N. V. Hooker Chemical S. A. in Genk, Belgium, where resins are produced. Lower left, isomers are separated in this fractionating tower at Hooker Chemical's Niagara Falls, New York, complex. Upper right, experimental work on new sheet molding compounds at Grand Island, New York, research center. Bottom, sorting decorative high-pressure laminates at Plastiflex, C. A. plant in Valencia, Venezuela

under way. The patented process produces low-cost bleaching chemicals without effluent problems.

Construction of solar brine ponds at Searles Lake, California, to be utilized in your company's unique process to recover saline minerals such as borax products, soda ash and potassium sulphate, has been completed. The next step will be construction of a processing plant at the site.

Ruco Fabrics Division Reorganized

Ruco's coated fabrics division, which posted substantial losses in 1971, has recently undergone a complete reorganization. New styling and marketing approaches have been instituted for our leatherlike fabric, Rucaire, and we expect to see a turnaround in the operation in 1972.

Ruco's plastic film and sheeting operations at Burlington, New Jersey, continue to do well, and during the past year Hooker tripled its bulk polyvinyl chloride (PVC) production capacity. These special PVC resins, manufactured by a unique and highly efficient process, are particularly useful for the production of clear films and bottles. Our Durez division introduced a full line of plastic molding compounds for use in the new in-line molding presses.

International Sales and Profits Increase

International chemicals and plastics sales and profits increased during 1971 compared with previous years, particularly from the Latin American companies acquired in 1970 from W. R. Grace & Co. We expect continued expansion in this field during 1972 as several important new facilities come into production.

An expanded facility will go into service shortly at Sinteticos, S.A. in Medellin, Colombia, producing Koralite, Sinteticos' brand name for high pressure decorative laminates. At our Vulcan plant in Rio de Janeiro, we have enlarged our capacity to produce film and sheeting for a wide range of uses in the automotive, furniture, wall covering and packaging markets. Other equipment will produce expanded vinyls and urethane coated fabrics. At Genk, Belgium, a new plant will manufacture a Hooker formulation of polyurethane resin granules, Rucothane, to supply producers of coated fabrics in the Common Market.

OXY METAL FINISHING DIVISION

Oxy Metal Finishing Division (OMF) sales and profits for 1971 were below 1970 levels as the necessity to reduce excessive inventories forced many of OMF's customers worldwide to cut production schedules and defer capital expenditures for the plating and metal processing equipment we sell. By year-end, there were signs of improvement throughout the division, and our backlog of equipment and material orders for delivery in 1972 has increased.

Recently the three separate organizations which comprise Oxy Metal Finishing — Sel-Rex, Udylite and Parker — have been combined into a new subsidiary, Oxy Metal Finishing Corporation. Substantial cost reductions are expected to result through the elimination of duplicate sales efforts,

warehousing, transportation, administration and overhead, and especially in research and service functions.

International Operations

The Oxy Metal Finishing International Division increased its market share in many locations and also entered into new markets in its continuing program to promote OMF products and processes in the international market place. However, these accomplishments were largely obscured by the reduced demand from major users resulting from the worldwide recession and monetary dislocations existing during 1971.

Our French subsidiary, Oxy Metal Finishing France, has built a new organization throughout France capable of serving this large metal treating market on a direct basis. Additionally, acquisitions in Austria and Sweden give us the ability to sell directly to those markets. The Austrian company, located in Vienna, will be used for a base of operations promoting our chemical specialties and equipment to the expanding and largely untapped East European market.

Pollution Abatement Company Acquired

In mid-year 1971, a British company, Effluent Control International Limited, was acquired. This new member of the OMF international division has, over the past years, designed and installed industrial and municipal pollution abatement systems throughout West and East Europe, specializing in the field of pollution control for the metal finishing industry.

In Mexico, Almex, S.A., and Aramis, S.A., were acquired during 1971 and consolidated with Udylite Mexicana into a new company, Oxymex S.A. de C.V. This increases our capacity to serve the growing Mexican metal finishing market.

AGRICULTURAL CHEMICALS, FERTILIZERS AND SULPHUR DIVISION

Profits of our agricultural chemicals, fertilizer and sulphur division, Occidental Chemical Company (Oxychem), in 1971 showed considerable improvement over 1970 on approximately the same sales volume, reflecting higher profit margins on wholesale, retail and export levels. At year-end, product inventories throughout the industry had dropped substantially, creating an improved market for most phosphatic fertilizer products, and it is generally believed throughout the industry that sales volumes will continue strong with a return to reasonable profits after four years of over-supply.

1971 sales by Oxychem's international fertilizer and commodity marketing division, Interore, were up 18 per cent above 1970, with profits improved substantially. In contrast to 1970, this reflected market increases in overseas demand for fertilizers and phosphate rock and substantial decreases in ocean freight rates.

Sales of Animal Feed Supplements Increase

Sales volumes of phosphatic animal feed supplements were up five per cent with profits increasing 28 per cent. This im-

provement reflects the first year of production and sales from our new pollyphos plant in Florida. Occidental, with its broad product lines, is the second largest manufacturer and marketer of feed supplements in the United States.

Leather's Chemical Company Limited's sales and profits for 1971 were up 17 per cent and 11 per cent, respectively, over 1970 levels. Leather's presently produces sulphuric acid from three plants in northern England and is constructing a 650 tons per day sulphuric acid plant at Trafford Park, Manchester, England. Completion is expected in early 1973.

Jefferson Lake Sulphur Company

Sales in 1971 by Oxychem's domestic subsidiary, Jefferson Lake Sulphur Company, amounted to 398,000 tons of sulphur, 27 per cent above 1970 levels. However, production from Jefferson Lake's Texas and Louisiana operations dropped four per cent below 1970. We are presently in the process of phasing out our Louisiana plant, which has become uneconomic due to the drop in sulphur prices.

Through the employment of various measures, our cost of sales was reduced 12 per cent in 1971. However, sulphur prices dropped, mostly in the first quarter of 1971, by an average of \$4.00 per ton or approximately 18 per cent.

Research and Development Division

Over the past year, much of the emphasis of Occidental's corporate research division, Garrett Research and Development Company, Inc., has been focused on synthetic fuels. We believe that the programs developed in this area under the direction of our executive vice president for research and development, Dr. Donald E. Garrett, have brought Occidental to an advanced position in the field of synthetic fuel technology. The rapidly-growing vital need for increased domestic sources of oil and gas, coupled with Island Creek's large reserves of coal from which other fuels may be synthesized, gives this effort an immense potential.

Coal-to-Oil Conversion

Garrett has under development a pyrolysis process (heating material in the absence of air) applicable to most grades and types of coal to produce substantially sulphur-free oil from coal. Tests thus far indicate yields from 50 to 100 per cent greater than from other known coal liquefaction processes, with a low-sulphur carbon residue (char) which can be utilized as power plant fuel.

Occidental is developing new processes which produce low-sulphur, high-quality oil from coal and from solid waste, including garbage and trash. Upper left, coal, and lower left, dried and processed garbage being fed into pilot plant to be made into oil. Right, Dr. Donald E. Garrett, Occidental's research director, conducts demonstration for government officials as oil produced from refuse flows from pilot plant



During the past year, Garrett has been testing this process in its pilot plant with favorable results. After the pilot testing program has been completed, the next step will be to design a commercial plant. The process uses relatively simple low-cost equipment and, according to our estimates, offers the prospect of a good rate of return on investment.

Coal Gasification Process

Garrett scientists are also working on a coal gasification process concept which we feel will offer considerably lower operating and capital costs than other existing methods. This process is now being studied on a small pilot plant scale under a research participation program with Colorado Interstate Gas Company and will, if results are favorable, advance to a larger scale pilot plant late in 1972.

Garrett has developed a new process to produce oil from oil-bearing shales underground which we believe could be economically feasible at today's oil prices. Garrett's method would extract oil from a larger fraction of the formation of varying shale oil content than if the shale were mined and retorted above ground. Our research staff is working on this development project to get ready for large-scale testing in preparation for bidding by your company on government oil shale leases in December.

Oil Produced from Garbage and Trash

Pilot plant studies have been made on the conversion of various solid wastes into synthetic fuel oil. The pilot plant data shows that about one barrel of low-sulphur fuel oil, currently worth from \$2.50 to \$4.00 per barrel, can be obtained from one ton of unsorted municipal refuse, and that a better oil yield can be produced from other solid wastes such as tree bark and rubber tires.

To supplement this work, Garrett scientists have under development a low-cost, high-yield method of recovering from refuse such products as clean glass, magnetic and non-magnetic metals along with synthetic fuel gas and char. The char may be burned as a low-sulphur coal substitute or serve as a low-cost source of activated charcoal for sewage treatment applications.

Process Successfully Demonstrated

On February 3, 1972, the process was successfully demonstrated before officials of several municipalities, the U.S. Environmental Protection Agency and others, utilizing a pilot plant having a nominal capacity of four tons per day. Because it is possible that about 90 per cent of the content of municipal trash can be recycled economically, a wide interest has developed in the process. The next step will be testing in a large integrated demonstration plant.

At Oxychem's chemical complex in northern Florida, encouraging progress has been made on the processing of slimes and low-grade phosphate rock to recover their values, which would otherwise be wasted, and also in the production of hydrofluoric acid, another phosphate by-product. The indicated economics of both these projects are sufficiently attractive to justify the installation of a large commercial operation.

CANADIAN OCCIDENTAL PETROLEUM LTD.

The year 1971 was very significant for your company in Canada. As a result of a reorganization on July 12, 1971, all Canadian oil, gas and chemical operations of Occidental and of our 55 per cent-owned subsidiary, Jefferson Lake Petrochemicals of Canada Ltd., were combined to form Canadian Occidental Petroleum Ltd., in which we own 82 per cent of the outstanding stock.

Included in the transfer were four Hooker chemical plants; namely, two chlor-alkali plants in North Vancouver and Nanaimo, British Columbia; a phenolic resins plant in Fort Erie, Ontario, and a metals finishing chemicals plant near Toronto.

In Strong Financial Condition

Canadian Occidental completed 1971 with net cash flow of \$8,357,000 and net income of \$3,517,000 equivalent to \$1.37 per share and \$.58 per share, respectively, on revenues of \$26,713,000. The company is in strong financial condition with total assets of \$71 million and shareholders' equity of \$64 million.

In order to meet the demands of our customers which are steadily increasing, the chlor-alkali plant located in North Vancouver is being expanded and, by mid-1972, the production capacity of chlorine will be increased from 330 tons to 395 tons per day and of caustic soda from 363 tons to 434 tons per day.

Exploratory Lands Acquired

In addition to the lands acquired from Occidental in the reorganization, Canadian Occidental added 1,374,315 acres of exploratory lands during the year, mostly located in northern Alberta. Canadian Occidental's gross acreage position at the end of 1971 approximated eight million acres under lease of which more than 6.6 million acres were net to the company.

Effective February 1, 1972, Canadian Occidental purchased all the assets of our subsidiary, Occidental Minerals Corporation of Canada, which is now being operated as a division of Canadian Occidental.

International Hotel Division

Construction of the new 300-room Holiday Inn in Monte Carlo, Monaco, is moving ahead rapidly with a mid-1972 opening scheduled for this beautiful resort hotel. Construction began on two new Holiday Inns in Switzerland under a joint venture agreement with Moevenpick Holding, prominent Swiss restaurant chain. Agreement has been reached with the Lagos state government in Nigeria for a 500-room Holiday Inn on Victoria Island. Construction is expected to commence in mid-1972.

In Eastern Europe, the company's joint venture with Tower International of Cleveland, Ohio, has signed an agreement with the Bulgarian government for a 450-room Holiday Inn in Sophia. Negotiations for similar agreements in other eastern European countries are under way.



Ultra-modern 300-room seaside resort hotel near completion at Monte Carlo, Monaco, under Occidental-Holiday Inns joint venture agreement

The Holiday Inn in Fez, Morocco, second of four inns to be jointly owned by your company, Holiday Inns and the Moroccan government, was opened for business in March, 1971. However, due to a contractual disagreement with the Moroccan government, the hotel operator, Holiday Inns, closed the hotels at Fez and Marrakech, effective January 31, 1972, pending arbitration of the disagreement by the International Center for the Settlement of Investment Disputes. The hotels have since been reopened under the auspices of the Moroccan government. We believe this situation resulted from a misunderstanding and that the matter will be settled soon. Construction on the two hotels at Casablanca and Tangier has been temporarily suspended by Holiday Inns but may be resumed shortly by the Moroccan government pending the outcome of the arbitration.

Real Estate Division

In mid-year 1971, Occidental's real estate division was placed under the management of Vahlco Corporation. Partially owned by Occidental, Vahlco has for several years been engaged in real estate and construction activities in other parts of the country. Your company has discontinued the building of homes in favor of developing acreage for recreational land projects and for sales to other builders. This pattern is now being successfully followed at our Lake Forest community development project located in, Orange County, California.

Four recreational land developments, located primarily in California, are under way and two additional projects are in the planning stage. Our general land inventory, consisting of approximately 200,000 acres, is being sold to land developers, builders and ranchers, and the outlook for the disposal of this land is encouraging, particularly in light of the improved financing terms and lower interest rates which are now available.

Financial Review

Your company's financial statement highlights for 1971 are summarized below on a basis comparative with 1970:

	1971	1970
	(Amounts in millions)	
Net sales and other revenues	\$2,635.2	\$2,385.7
Earnings (loss)	(67.0)	175.2(a)
Operating cash flow	150.6	282.0
Total assets	2,580.0	2,656.0
Shareholders' equity	839.4	973.8
Cash dividends paid	67.8	74.0

(a) Includes income from sale of coal lease rights amounting to \$4.5 million in 1970. See special note to company's consolidated statement of operations on page 23.

Although Occidental's net revenues increased in 1971 over 1970, operating results were dominated by the significant unfavorable turnaround in marine tanker operations previously commented on in this report. This was coupled with

lower production in Libya, the seven week coal strike, lower domestic chemical and metal finishing profits and the turn-down in European refining and marketing. Before extraordinary items and the emergency fleet charges, net operating earnings, as noted at the beginning of this report, were \$40 million.

Cash Flow and Financing

Occidental's cash flow from operations in 1971 totaled \$151 million despite the deficit in earnings. Major new financings during the year included a \$125 million convertible subordinated debenture issue, \$80 million of additional domestic revolving credits, and \$34.6 million of Eurodollar term and revolving credits.

Some of this new credit was not drawn down during the year but remains available for the company to use as required in the future. The combination of these factors enabled the company to maintain its sound financial position and to reduce senior funded debt by \$89 million during 1971.

In addition to \$237 million of cash at year-end, Occidental had available to it \$121 million of unused committed bank credit lines. Substantial open bank lines, for which commitment fees are not paid, are also available to the company for short-term working capital requirements.

Assets and Shareholders' Equity

Occidental's assets totaled almost \$2.6 billion at the end of 1971. Shareholders' equity, after the distribution of \$68 million in cash dividends and recognition of \$67 million of losses, still totaled \$839 million at the end of 1971. Capital expenditures in 1971 were \$217 million, down \$15 million from the 1970 figure principally due to the completion of certain projects in Libya.

Following is a summary of capital expenditures categorized by the major operating divisions:

	1971	1970
	(Amounts in millions)	
Oil and Gas Operations:		
International Production and Exploration	\$ 65	\$ 87
International Refining, Marketing and Transportation	16	10
North America	24	25
	105	122
Chemical Operations	49	48
Coal Operations	61	55
Other Operations	2	7
	\$217	\$232

New plant at company's chemicals complex in Florida produces Pollyphos, Occidental's brand name for defluorinated phosphate feed supplements



We call your attention to the ten year statistical summary of consolidated operations at page 32 for a more comprehensive presentation of the company's growth.

PERSONNEL CHANGES

Several executive changes were made during the past year. William Bellano has taken early retirement, continuing as a consultant to Occidental, and the chairman of the board of your company has assumed the duties of president in addition to serving as chairman and chief executive officer.

Two new executive vice presidents have been brought into the Los Angeles headquarters staff; namely, W. Marvin Watson and Robert J. Caverly, each of whom also serves as an executive assistant to the chairman — Mr. Watson as executive vice president for corporate affairs and Mr. Caverly as executive vice president for operations.

Background Data on Executives

Mr. Watson has since 1969 served as president of Occidental International Corporation, which office he continues to hold. During 1971, he was elected an Occidental director and senior vice president. Prior to joining Occidental, Mr. Watson was a director and the executive assistant to the chairman of Lone Star Steel Company for ten years. More recently, he was chief special assistant to President Johnson and served in his cabinet as Postmaster General of the United States.

Mr. Caverly was formerly a senior executive and director of Hilton Hotels Corporation and Hilton Hotels International over a 20-year period from 1947 to 1967. He was president and chief operating officer of Carte Blanche Credit Corporation prior to its sale by Hilton. Subsequently, he has been chief executive officer of American Air Lines' subsidiary, Sky Chefs, Inc., and most recently was a consultant to the Hughes organization in reorganizing its enterprises in Nevada.

Thomas F. Willers, formerly president and chief executive officer of Hooker Chemical Corporation, resigned and has entered into a field of business unrelated to Hooker's operations. His duties have been assumed by Morris M. Messing who has been elected an executive vice president of Occidental as well as chief executive officer of the chemical division. Mr. Messing is also chairman of the board of Hooker. Thomas Wachtell, formerly vice president and executive assistant to the chairman, has been elected an executive vice president for chemicals and transferred to the chemical division's headquarters at Stamford, Connecticut, where he will report to Mr. Messing. B. D. Cooper will remain as chairman of the board and president of International Ore and Fertilizer Corporation (Interore).

New Oil and Gas Division Manager

During October, 1971, Robert A. Teitsworth was promoted to the office of executive vice president and manager of Occidental's oil and gas exploration and production division replacing E. F. (Bud) Reid who had resigned to go into business for himself. Mr. Teitsworth is a veteran with 12 years

of service in Occidental's oil and gas division and was formerly vice president and manager of North American oil and gas exploration. He continues to hold the office of chairman of the board of Canadian Occidental Petroleum Ltd.

The other two senior executives of the oil and gas division, vice presidents Richard H. Vaughan and Charles C. Horace, have each assumed additional duties. Mr. Vaughan has been named manager of worldwide exploration and Mr. Horace manager of drilling and production worldwide. George M. Williamson, formerly president of our wholly-owned subsidiary, Occidental of Libya, Inc. (Oxylibya), has relinquished that position and has been elected president of a new subsidiary in the United Kingdom, Occidental International Oil, Inc., and Robert H. Espey has been elected president of Oxylibya. Occidental International Oil, Inc., provides advisory and related services to our international oil marketing, refining and transportation division. Mr. Williamson is also an executive vice president of Occidental Petroleum Corporation.

It is with the deepest regret that we inform you of the untimely death on December 15, 1971, of Eugene C. Reid. "Gene," as he was known to his many friends, had from July, 1959, served continuously as a member of the board of directors and, until his retirement in May of 1967, as senior executive vice president of the company and senior officer of our oil and gas division.

CONCLUSION

Looking forward, our international refining, marketing and transportation division should show improvement despite the fact that heating and fuel oil prices remain weak. Through the reserve for possible future losses on the emergency fleet, average tanker fleet costs for our own requirements as well as for subcharters have been reduced to a competitive level.

We expect a return to profitable operations this year. The executives responsible for each of our major operating divisions express confidence that the profit goals established by your company for 1972 and beyond will be met. Your management believes that with the expected improved economy, expanding markets and lower interest rates, Occidental will continue its growth record of the past decade.

By order of the board of directors,



Armand Hammer
Chairman of the Board

March 17, 1972



Occidental Petroleum Corporation Board of Directors, left to right: Dorman L. Commons, W. Marvin Watson*, Arthur Groman*, Charles K. Schwartz, Dr. Armand Hammer*, Herman L. Vail, James L. Hamilton, Neil H. Jacoby*, Paul C. Hebner*

*Members of the Executive Committee

Board of Directors

Dr. Armand Hammer, *Chairman of the Board, President and Chief Executive Officer*

Dorman L. Commons, *Senior Vice President—Finance*

Arthur Groman, *Senior Partner of Mitchell, Silberberg & Knupp, Los Angeles*

James L. Hamilton, *Retired, formerly Chairman of the Board of Island Creek Coal Company*

Paul C. Hebner, *Vice President and Secretary*

Neil H. Jacoby, *Professor, formerly Dean, Graduate School of Management, University of California at Los Angeles*

Charles K. Schwartz, *Retired, Senior Partner of Gottlieb & Schwartz, Chicago*

Herman L. Vail, *Senior Partner of Sayre, Vail, Steel & Renkert, Cleveland*

W. Marvin Watson, *Executive Vice President for Corporate Affairs; Executive Assistant to the Chairman of the Board; President, Occidental International Corporation*

Morris M. Messing, *Executive Vice President; Chief Executive Officer of Chemical Division*

Thomas Wachtell, *Executive Vice President for Chemicals*

A. P. Gates, *Executive Vice President for Agricultural Chemicals, Fertilizers and Sulphur*

Donald E. Garrett, *Executive Vice President for Research and Development*

Stonie Barker, Jr., *Executive Vice President; President, Coal Division*

Thomas D. Jenkins, *Executive Vice President; President, Domestic Crude Oil Marketing Division*

Robert A. Teitsworth, *Executive Vice President; Manager, Oil and Gas Exploration and Production Division*

Charles C. Horace, *Vice President, Manager of Drilling and Production*

Richard H. Vaughan, *Vice President, Manager of Exploration*

Ronald P. Klein, *Vice President and General Counsel*

Paul C. Hebner, *Vice President and Secretary*

Charles J. Lee, *Vice President and Treasurer*

James L. Murdy, *Controller*

Officers

Dr. Armand Hammer, *Chairman of the Board, President and Chief Executive Officer*

W. Marvin Watson, *Executive Vice President for Corporate Affairs; Executive Assistant to the Chairman of the Board*

Robert J. Caverly, *Executive Vice President for Operations, Executive Assistant to the Chairman of the Board*

Dorman L. Commons, *Senior Vice President—Finance*

George M. Williamson, *Executive Vice President; General Manager, International Oil Marketing, Refining and Transportation Division*

Executive Staff

Tim M. Babcock, *Executive Vice President, Occidental International Corporation*

Paul A. Bailly, *President, Occidental Minerals Corporation*

Carl W. Blumay, *Director of Public Relations*

James L. Clifford, *President, Oxy Metal Finishing Division*

William D. Morrison, *President, Hooker Chemicals and Plastics Division*

Consolidated Statements of Operations

For the years ended December 31, 1971 and 1970

	1971	1970 (Note 12)
	(Amounts in thousands)	
REVENUES:		
Net sales and other revenues	\$2,635,208	\$2,385,662
Interest, dividends, etc. (Note 1)	28,218	27,561
	<u>2,663,426</u>	<u>2,413,223</u>
COSTS AND OTHER DEDUCTIONS:		
Cost of sales	2,035,311	1,812,677
Selling, general and administrative and other operating expenses	182,927	152,284
Provision for domestic and foreign income, franchise and other taxes (Note 9)	337,257	224,488
Interest and debt expense	67,059	53,807
Minority interest in income of subsidiaries	959	368
	<u>2,623,513</u>	<u>2,243,624</u>
Income before gains (losses) from emergency fleet position	39,913	169,599
GAINS (LOSSES) FROM EMERGENCY FLEET POSITION (Notes 4 and 12)	(87,931)	5,635
Income (loss) before extraordinary items	(48,018)	175,234
EXTRAORDINARY ITEMS (Note 11):		
Foreign exchange losses, net	(10,511)	—
Other gains and losses, net, principally on property, plant and equipment	(8,473)	—
Net income (loss) including sales of coal lease rights in 1970 (Note 6)	<u>\$ (67,002)</u>	<u>\$ 175,234</u>
NET INCOME AS COMPUTED IN ACCORDANCE WITH ALLEGATIONS OF THE SECURITIES AND EXCHANGE COMMISSION*		
(Notes 5 and 6):		
Net income including sales of coal lease rights		\$ 175,234
Less — Sales of coal lease rights		4,459
Net income excluding sales of coal lease rights*		<u>\$ 170,775</u>
PRIMARY EARNINGS PER SHARE (Note 8):		
Before extraordinary items	\$ (1.26)	\$2.92
Extraordinary items	(.35)	—
Net income (loss) including sales of coal lease rights in 1970	<u>\$ (1.61)</u>	<u>\$2.92</u>
Net income excluding sales of coal lease rights in 1970*		<u>\$2.83</u>
FULLY DILUTED EARNINGS PER SHARE (Note 8):		
Net income including sales of coal lease rights		\$2.53
Net income excluding sales of coal lease rights in 1970*		<u>\$2.47</u>

*The Securities and Exchange Commission has alleged that sales of coal lease rights should not have been included in income in 1970 (see Notes 5 and 6). The company believes that the inclusion of such sales in income was proper. If such sales were not included in income, income and earnings per share would be as set forth above on the asterisked lines. These allegations were made in a complaint filed by the Securities and Exchange Commission on March 4, 1971, against Occidental and its chairman alleging, among other things, that Occidental improperly recognized income from various transactions in certain quarters in 1969 and 1970, and in its annual statements for 1969 and

1970, and issued press releases, quarterly reports to shareholders and other reports which failed to disclose that such income was improperly recorded, or failed to disclose the origin of certain other income, or gave misleading information as to oil production, projected coal production and projected earnings in 1970. An injunction was sought to restrain the defendants from violating Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 issued thereunder. In order to avoid costly and protracted legal proceedings, and without admitting the truth of the allegations, Occidental and its chairman consented to the entry of a permanent injunction.

Consolidated Balance Sheets

December 31, 1971 and 1970

	1971	1970
	<i>(Amounts in thousands)</i>	
Assets		
CURRENT ASSETS:		
Cash (Note 12)	\$ 237,060	\$ 405,697
Marketable securities, at cost which approximates market	1,228	2,430
Receivables, net of reserves	436,306	434,483
Inventories, substantially at the lower of cost (average or first in, first out) or market	192,584	195,142
Prepaid expenses	23,940	17,620
Total current assets	<u>891,118</u>	<u>1,055,372</u>
 LONG-TERM RECEIVABLES, net of reserves	 37,205	 39,880
 INVESTMENTS IN AND ADVANCES TO UNCONSOLIDATED SUBSIDIARIES AND AFFILIATED COMPANIES (Note 1)	 145,149	 132,809
 PROPERTY, PLANT AND EQUIPMENT, at cost (Notes 2 and 3), net of accumulated depreciation, depletion and amortization of \$629,105 and \$532,766 in 1971 and 1970, respectively	 1,374,001	 1,300,704
 OTHER ASSETS, less amortization	 132,555	 127,171
	<u><u>\$2,580,028</u></u>	<u><u>\$2,655,936</u></u>

The accompanying notes are an integral part of these balance sheets.

Liabilities

	1971	1970
	(Amounts in thousands)	
CURRENT LIABILITIES:		
Notes and debt due within one year (Note 12)	\$ 178,071	\$ 236,396
Accounts payable and accrued liabilities	298,048	298,233
Cash dividends payable	6,967	13,356
Domestic and foreign income, franchise and other taxes (Note 9)	170,142	155,607
Total current liabilities	<u>653,228</u>	<u>703,592</u>
SENIOR FUNDED DEBT (Note 3)	<u>773,734</u>	<u>862,986</u>
CONVERTIBLE SUBORDINATED DEBENTURES (Notes 3 and 7)	<u>125,000</u>	<u>—</u>
DEFERRED CREDITS:		
Revenue on sale of future production	46,911	52,830
Deferred domestic and foreign income taxes (Note 9)	20,544	26,218
Reserve for loss on emergency fleet position (Note 4)	65,000	—
Other	39,364	19,311
	<u>171,819</u>	<u>98,359</u>
CONTINGENT LIABILITIES AND COMMITMENTS (Note 5)		
MINORITY EQUITY IN SUBSIDIARIES	<u>16,888</u>	<u>17,211</u>
SHAREHOLDERS' EQUITY (Notes 3, 7 and 8):		
Preferred stocks (aggregate preference on involuntary liquidation \$495,025)	5,238	5,776
Common shares	11,134	10,793
Capital surplus	500,662	500,073
Retained earnings	322,325	457,146*
	<u>839,359</u>	<u>973,788</u>
	<u>\$2,580,028</u>	<u>\$2,655,936</u>

*See consolidated statements of shareholders' equity.

Consolidated Statements of Shareholders' Equity

For the years ended December 31, 1971 and 1970

	Preferred Stocks (Note 7)	Common Shares (Note 7)	Capital Surplus	Retained Earnings
	(Amounts in thousands)			
BALANCE, DECEMBER 31, 1969	\$6,137	\$10,351	\$472,553	\$370,806
ADD (DEDUCT):				
Net income, including sales of coal lease rights*	—	—	—	175,234
Issuance of shares —				
In partial consideration for purchase of businesses	175	—	17,310	—
Exercise of employee stock options	2	11	732	—
Conversions of preferred stocks	(538)	327	208	—
Dividends —				
Cash on common shares	—	—	—	(52,582)
Cash on preferred stocks	—	—	—	(21,410)
Common shares	—	104	9,270	(9,638)
Cost of common shares reacquired	—	—	—	(5,264)
BALANCE, DECEMBER 31, 1970	5,776	10,793	500,073	457,146
ADD (DEDUCT):				
Net loss	—	—	—	(67,002)
Issuance of shares —				
Exercise of employee stock options	—	7	473	—
Conversions of preferred stocks	(538)	334	204	—
Dividends —				
Cash on common shares	—	—	—	(47,475)
Cash on preferred stocks	—	—	—	(20,344)
Other, net	—	—	(88)	—
BALANCE, DECEMBER 31, 1971 (Note 3)	<u>\$5,238</u>	<u>\$11,134</u>	<u>\$500,662</u>	<u>\$322,325</u>

*See dual presentation and special note on statements of operations.

The accompanying notes are an integral part of these statements.

Consolidated Statements of Funds

For the years ended December 31, 1971 and 1970

	1971	1970
	<i>(Amounts in thousands)</i>	
SOURCE OF FUNDS:		
Net income (loss) before extraordinary items, including sales of coal lease rights in 1970*	\$ (48,018)	\$175,234
Add (deduct) — Items not requiring an outlay of working capital —		
Depreciation, depletion and amortization	125,885	113,572
Provision for loss on emergency fleet position (Note 4)	65,000	—
Earnings of unconsolidated subsidiaries, minority interest and other nonfund items, net	7,739	(6,762)
Working capital provided from operations, exclusive of extraordinary items	150,606	282,044
Extraordinary items	(18,984)	—
Add — Extraordinary items not requiring an outlay of working capital	8,698	—
	<u>140,320</u>	<u>282,044</u>
Proceeds from —		
Stock options exercised	480	745
Issuance of preferred stock for purchase of businesses	—	17,500
Long-term borrowings	81,600	234,882
Convertible subordinated debentures	125,000	—
Sale of future production	6,307	7,200
Prepaid revenues	25,900	—
Disposals of assets	29,454	3,888
Payments of notes receivable	17,866	5,289
	<u>426,927</u>	<u>551,548</u>
USE OF FUNDS:		
Additions to property, plant and equipment	216,927	231,783
Payment of cash dividends	67,819	73,992
Purchase of businesses, net of working capital acquired	—	18,419
Purchase of treasury stock	—	5,264
Payments on long-term borrowings	191,963	90,608
Liquidation of production payments	12,226	14,715
Investments, advances, etc.	11,789	27,518
Additions to notes receivable	19,467	6,513
Additions to other assets	14,213	19,921
Other, net	6,413	17,527
	<u>540,817</u>	<u>506,260</u>
INCREASE (DECREASE) IN WORKING CAPITAL	<u>\$ (113,890)</u>	<u>\$ 45,288</u>
CHANGES IN COMPONENTS OF WORKING CAPITAL — increase (decrease):		
Current assets —		
Cash and marketable securities	\$ (169,839)	\$ 19,976
Receivables and prepaid expenses	8,143	88,269
Inventories	(2,558)	42,947
Total current assets	<u>(164,254)</u>	<u>151,192</u>
Current liabilities —		
Notes and debt due within one year	(58,325)	31,597
Accounts payable, accrued liabilities and other payables	(6,574)	52,500
Domestic and foreign income, franchise and other taxes	14,535	21,807
Total current liabilities	<u>(50,364)</u>	<u>105,904</u>
NET INCREASE (DECREASE) IN WORKING CAPITAL	<u>\$ (113,890)</u>	<u>\$ 45,288</u>

*See dual presentation and special note on statements of operations.

The accompanying notes are an integral part of these statements.

Notes to Consolidated Financial Statements

1. Principles of consolidation The consolidated financial statements include the accounts of Occidental Petroleum Corporation and its significant subsidiaries. Certain insignificant subsidiaries have not been consolidated since their operations are not similar to those of Occidental and its consolidated subsidiaries. All material intercompany accounts and transactions have been eliminated.

At December 31, 1971, investments in unconsolidated majority-owned subsidiaries are stated at amounts equivalent to the equity in net assets of those companies, except that certain investments in and advances to foreign subsidiaries and affiliates are stated at the lower of cost or the equity in their net assets. The equity in net income or loss of unconsolidated subsidiaries, which is not significant, is included in interest, dividends, etc., in the accompanying consolidated statements of operations.

Foreign assets and liabilities have been translated to U.S. dollars at year-end exchange rates, except that property has been translated at approximate rates prevailing when acquired. Income and expense items have been translated at average rates of exchange prevailing during the year, except that depreciation has been calculated at the approximate rates prevailing when the properties were acquired.

Approximately \$1,025 million of assets, \$730 million of liabilities and \$1,200 million of revenues included in the consolidated financial statements pertain to operations outside the United States and Canada.

2. Property, plant and equipment, at cost

	December 31	
	1971	1970
	(Amounts in thousands)	
Oil and gas operations —		
International production, exploration, pipeline, etc.	\$ 528,214	\$ 464,664
International refining, marketing and transportation	165,135	154,418
North America	244,551	224,571
Chemical operations	659,110	622,374
Coal operations	406,096	367,443
	<u>2,003,106</u>	<u>1,833,470</u>
Less — Accumulated depreciation, depletion and amortization	629,105	532,766
	<u>\$1,374,001</u>	<u>\$1,300,704</u>

All costs of exploring for and developing oil and gas reserves are capitalized and charged to operations on a unit-of-production basis over the life of estimated future production. Oil and gas operations outside North America are accounted for on a country-by-country basis under this practice.

Depreciation of plant and equipment has been provided using the straight-line and declining-balance methods based on useful lives.

3. Long-term debt, net of current maturities of \$130,889,000

	Interest Rate (Percent)	Dec. 31, 1971 (Amounts in thousands)
Senior funded debt —		
Revolving credit notes due 1974-1978	5¼ to 6	\$206,350
Eurobonds due 1973-1988	6½ to 9¼	144,722
Notes due 1973-1975	3⅝ to 9¼	173,739
Notes due 1976-1980	3⅝ to 9¼	70,221
Notes due 1981-1989	4⅝ to 7¾	79,627
Eurodollar revolving credit notes due 1973-1977	6⅞ to 8⅞	21,400
Notes due 1973-1986, secured by mortgages on property, plant and equipment	5⅞	21,450
Sinking fund debentures due 1974-1991	4⅞	22,000
Others due 1973-1989	Various	34,225
		<u>\$773,734</u>
Subordinated debt — convertible debentures due 1982-1996		
	7½	<u>\$125,000</u>

Certain of the above indebtedness has been borrowed under agreements which contain covenants relating to maintenance of financial ratios, borrowings, declarations of cash dividends, etc. At December 31, 1971, there are retained earnings of \$322,325,000, and under the most restrictive of the company's loan agreements, further cash dividends on common shares cannot be paid until retained earnings total approximately \$357 million. This covenant does not prevent the payment of regular fixed dividends on preferred stock; however, under another covenant, retained earnings of approximately \$226 million are restricted as to the payment of all cash dividends. The interest rate on certain notes is dependent on prime interest rates which may fluctuate from time to time.

At December 31, 1971, Occidental had unused domestic and Eurodollar lines of bank credit aggregating \$121 million with commitment fees ranging from ¼ per cent to ½ per cent.

4. Emergency fleet position Starting in May, 1970, when the Libyan government was demanding increased revenues from oil producers in Libya, the government ordered several cutbacks in permissible levels of production of Occidental of Libya, Inc. (Oxylibya) and other major producers. Because of this curtailment and the threat of further dislocation of the company's favorable source of crude oil, a wholly-owned subsidiary of the company, as an emergency measure, began to substantially increase its marine fleet tonnage through additional time charter commitments. As a result of the settlements with Libya, the sub-

subsidiary's expanded fleet position at December 31, 1971, significantly exceeded its normal operating requirements. This excess position coupled with the major downward adjustment of world shipping rates during 1971 has resulted in substantial losses on the excess capacity. Because the terms of charter agreements for the excess vessels extend, in part, into 1974, a reserve of \$65 million against possible future losses on those vessels has been included in the \$87,931,000 charged against 1971 operations.

To the extent that potential losses for which this reserve was provided are not realized as a result of improved tanker rates or application of possible legal rights or defenses or for other reasons, future earnings will benefit accordingly.

5. Contingent liabilities and commitments The Securities and Exchange Commission's complaint referred to in the special note to the statements of operations included, among others, various allegations concerning improper recognition of income, chiefly in certain transactions and matters in the years 1969 and 1970, in violation of Section 10(b) of the Securities Exchange Act of 1934. Since the filing of the Commission's complaint, a number of class actions and derivative actions have been filed against Occidental, its chairman and others, containing allegations similar to those in the Commission's complaint. The class actions, primarily based upon the alleged violations of Section 10(b), seek damages in amounts not yet ascertainable which were allegedly suffered by persons who purchased or held Occidental securities. Occidental has been advised by special legal counsel that, based upon the information known to them, the defendants appear to have a meritorious defense to the claims made in these actions and should prevail. The derivative actions do not seek damages against Occidental.

In 1967, an investment banker filed suit claiming a 25 per cent working interest in Occidental's oil concessions in Libya, or damages in the amount of \$100 million. The plaintiffs allege that they were offered an opportunity to acquire oil concessions in Libya by a third party, and that they submitted this to Occidental on the understanding they would participate as a 25 per cent joint venturer with Occidental in any oil concessions turned up by the third party. The plaintiffs further claim that the third party turned up and assisted Occidental in acquiring the two Libyan oil concessions awarded to Occidental. Occidental has been advised by special legal counsel that, in their opinion, based upon the information known to them, Occidental has a meritorious defense to the claim and should prevail.

In 1967, suits were filed against Occidental in conjunction with its purchase of stock of Kern County Land Company and subsequent grant of an option to Tenneco Corporation to purchase the Tenneco stock to be issued to Occidental following the acquisition of Kern by Tenneco. The plaintiffs seek to recover, under Section 16(b) of the Securities Exchange Act of 1934, profits from the transaction allegedly amounting to \$20 million, or to impose a constructive trust on the option price, or to recover punitive damages totaling \$25 million for alleged breach of fiduciary duty, or a combination of the foregoing. In one of these suits, a motion for summary judgment pertaining to the alleged Section 16(b) profits was decided in the plaintiff's favor and judgment was entered for recovery of \$23,500,000, including interest. However, that judgment was reversed on appeal to the U.S. Court of Appeals for the Second Circuit, and that court directed that summary judgment be entered in favor of Occidental. Plaintiff has filed a petition for a writ of certiorari seeking review of this decision in the Supreme Court of the United States. It is the opinion of Occidental's special legal counsel that Occidental should prevail. Occidental has counterclaims pending in the same lawsuits in a sum exceeding plaintiffs' claims.

There are various other lawsuits pending against Occidental and its subsidiaries, some of which involve substantial amounts. While at this time it is impossible to determine the ultimate liabilities which may arise from such other litigation, in the opinion of Occidental's general counsel such lawsuits are not likely to

result in losses the aggregate amount of which would have a material adverse effect upon the consolidated financial position of Occidental and its subsidiaries or result in a substantial impairment of their operations.

Occidental and its subsidiaries have certain other contingent liabilities as guarantors of debt and contracts and as joint venturers. Officials of the company are of the opinion that such contingent liabilities will not result in any significant financial liability in relation to the net assets of Occidental and its subsidiaries.

Occidental, in the ordinary course of business, contracts for marine tankers over extended periods, and these commitments involve charter rentals that are substantial in amount. The total of such commitments outstanding at December 31, 1971, amounted to approximately \$407,000,000 (see Note 4). Occidental has other leases which are not significant to the company's consolidated financial position.

6. Sales of coal lease rights During 1969 and 1970, Island Creek Coal Company, a wholly-owned subsidiary, made four sales of undivided interest in certain coal lease rights held by it in areas in which two new mines were planned. The complaint of the Securities and Exchange Commission, described in Note 5 and the special note to the consolidated statements of operations, alleged, among other things, that current inclusion in income of gain from such sales was improper. In view of the Commission's complaint, net income and earnings per share for 1970 are shown both including and excluding such sales.

7. Capital stock and stock options The holders of preferred stocks are entitled to voting rights and cumulative quarterly dividends. The \$8.00 preferred stock is redeemable at the option of Occidental at \$100 per share on or after October 2, 1972, or by operation of a sinking fund commencing in 1978. The \$4.00 preferred stock is redeemable at the option of Occidental at \$125 per share after April 1, 1973, and at declining amounts thereafter. The \$3.60 preferred stock is redeemable at the option of Occidental at \$100 per share on or after October 1, 1973. The \$2.16 preferred stock is redeemable at the option of Occidental at \$47.50 per share on or after October 1, 1973.

The convertible subordinated debentures are redeemable at the option of Occidental, in whole or in part, initially at 107.50 per cent of the principal amount plus accrued interest and at decreasing premiums thereafter. The debentures are entitled to a sinking fund, commencing June 15, 1982, retiring \$6,250,000 principal amount of debentures annually, and in addition, Occidental may, at its option, commencing June 15, 1976, retire up to \$6,250,000 principal amount of debentures annually, in each case at 100 per cent of the principal amount plus accrued interest. The debentures will be convertible prior to maturity, unless previously redeemed, into common shares of Occidental at \$20 per share, subject to adjustment as provided in the Indenture Agreement.

Options to purchase common shares of Occidental have been granted to officers and employees under stock option plans adopted in 1961, 1966 and 1971. At December 31, 1971, 1,528,189 common shares were reserved for issuance under outstanding options at prices from \$11.13 to \$48.53 per share, and 1,382,054 common shares were reserved for the granting of additional options. During 1971, options to purchase 38,850 common shares were granted; options to purchase 35,692 common shares were exercised; options to purchase 93,318 shares became exercisable and options to purchase 304,180 shares were canceled. In addition, options to purchase 1,707,431 common shares under the 1966 plan and plans assumed in connection with acquisitions were exchanged for options to purchase 1,298,923 common shares under the 1971 plan. No amounts have been reflected in the income accounts of Occidental or its subsidiaries with respect to stock options.

In connection with acquisitions, Occidental has assumed stock option plans. At December 31, 1971, outstanding options as-

sumed consisted of 2,010 shares of \$4.00 preferred stock at \$64.62 per share.

Following is a description of capital stock at December 31, 1971, and a summary of activity for the year then ended:

	Common Shares	Preferred Stocks			
		Noncon- vertible	Convertible		
Par value	<u>\$20</u>	<u>\$8.00</u>	<u>\$4.00</u>	<u>\$3.60</u>	<u>\$2.16</u>
Conversion rate	<u>—</u>	<u>\$1.00</u>	<u>\$1.00</u>	<u>\$1.00</u>	<u>\$1.00</u>
Authorized	<u>100,000,000</u>	<u>—</u>	<u>3,1066</u>	<u>3,1908</u>	<u>1,5813</u>

(Shares in thousands)					
Balance,					
December 31, 1970	53,963*	175	1,750	3,303	548
Exercise of employee stock options	35	—	—	—	—
Conversions of preferred stocks	1,672	—	(500)	(38)	—
Balance,					
December 31, 1971	55,670*	175	1,250	3,265	548

*Includes 566,497 shares held in treasury at December 31, 1971, and December 31, 1970.

The company has reserved approximately 15,174,000 common shares for conversion of the preferred stocks and 6,250,000 common shares for conversion of convertible subordinated debentures. The \$8.00 nonconvertible preferred stock and the

\$4.00 and \$3.60 convertible preferred stocks have rights in liquidation equivalent to \$100 per share. The \$2.16 convertible preferred stock has liquidation rights of \$47.50 per share. Aggregate rights in involuntary liquidation for all preferred stocks total \$495,025,000.

8. Earnings per share Primary loss per share for 1971 is based upon earnings applicable to average common shares outstanding for the year. Fully diluted loss per share for 1971 has not been shown since the effect would be antidilutive. Primary earnings per share for 1970 are based upon earnings applicable to average common shares outstanding for the year and an insignificant number of stock options granted after June 1, 1969, which are common share equivalents. Fully diluted earnings per share for 1970 give effect to the reduction in earnings per share which would result from the conversion of all preferred stocks and exercise of stock options granted up to June 1, 1969, and included in the fully diluted computation under the provisions of a pronouncement of the American Institute of Certified Public Accountants in effect prior to that date. In computing the per share effect of assumed conversions, (a) dividends on convertible preferred stocks have been added to earnings applicable to common shares, (b) it has been assumed that funds obtained from exercise of stock options were used to purchase common shares using the treasury stock method and (c) the related additional issuable common shares have been added to average outstanding common shares.

	1971		1970	
	Shares	Net Loss	Shares	Net Income
	(Shares and amounts in thousands)			
Net income (loss), including sales of coal lease rights in 1970		\$(67,002)		\$175,234*
Dividend requirements of preferred stocks		20,345		21,410
Earnings (loss) applicable to common shares, including sales of coal lease rights in 1970		\$(87,347)		153,824
Average outstanding common shares and common share equivalents	54,211		52,762	
Primary earnings (loss) per share, including sales of coal lease rights in 1970		\$(1.61)		\$2.92
Effect of assumed conversions of securities not considered common share equivalents —				
Convertible preferred stocks			16,153	20,771
Stock options			39	—
Total for computation of fully diluted earnings per share, including sales of coal lease rights in 1970			68,954	\$174,595
Fully diluted earnings per share, including sales of coal lease rights in 1970				\$2.53
Earnings per share, as computed in accordance with allegations of the Securities and Exchange Commission —				
Net income, excluding sales of coal lease rights in 1970				\$170,775*
Primary earnings per share, excluding sales of coal lease rights in 1970				\$2.83
Fully diluted earnings per share, excluding sales of coal lease rights in 1970				\$2.47

*See special note on statements of operations.

9. Domestic and foreign income, franchise and other taxes Occidental follows the practice of filing consolidated U.S. Federal tax returns including its 80 per cent or more owned domestic subsidiaries. As a result of the deduction of certain items for tax purposes which are capitalized for financial statement purposes, and as a result of the utilization of foreign tax credits, no Federal taxes have been paid or provided for Occidental for 1971 except for a tax on tax preference items as prescribed by the Revenue Act of 1969. Substantially all of the 1971 provisions for foreign income, franchise and other taxes relates to Occidental's Libyan operations.

10. Retirement income plans The company and its subsidiaries have several pension plans covering substantially all of their employees. The total expense of the plans for 1971 was

approximately \$6,428,000, which, for certain plans, includes amortization of prior service costs. The company's policy is to fund pension costs accrued. At December 31, 1971, the actuarially computed value of vested benefits for all plans was substantially fully funded.

11. Extraordinary items During 1971, and particularly in the latter part of the year, there were substantial changes in the relationship between the U.S. dollar and the currencies of other nations in which Occidental operates. As a result, the movement of funds from one currency to another and the translation of assets and liabilities into U.S. dollars from other currencies generated substantial gains and losses. The net effect of these changes was a loss of \$10,511,000.

Other extraordinary gains and losses during 1971 resulted pri-

marily from the sale or abandonment of property, plant and equipment. Gains amounted to \$5,032,000, including \$2,850,000 from the sale of Hooker Farm Chemicals of Taft, Inc., in compliance with a divestiture order by the Federal Trade Commission. These gains were more than offset by losses that amounted to \$13,505,000 from other transactions.

Since Occidental has not paid or provided Federal taxes in 1971, except as explained in Note 9, no tax effect has been utilized to reduce these gains or losses.

12. Restatement of December 31, 1970 financial statements Cash and notes and debt due within one year have been restated to include \$92,934,000 arising from short-term borrowings used in money market transactions in which the proceeds of such borrowings are simultaneously invested, at higher rates, in matching deposits with major international banks. Also the consolidated statement of operations has been restated to classify the gains from emergency fleet position separately.

Report of Independent Public Accountants

To the Shareholders and Board of Directors,
Occidental Petroleum Corporation:

We have examined the consolidated balance sheets of OCCIDENTAL PETROLEUM CORPORATION (a California corporation) and subsidiaries as of December 31, 1971 and 1970, and the related consolidated statements of operations, shareholders' equity and funds for the years then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The company's presentation of income in the accompanying statements for 1970 shows net income including sales of coal lease rights and shows separately net income excluding sales of coal lease rights computed in accordance with the Securities and Exchange Commission's complaint (see Note 6). In our opinion, "net income including sales of coal lease rights" represents net income in accordance with generally accepted accounting principles. However, in our judgment, the difference between "net income including sales of coal lease rights" and the dual presentation of net income in accordance with the Securities and Exchange Commission's complaint is not sufficiently material to cause us to qualify our opinion, expressed in the next paragraph, on the 1970 financial statements including such dual presentation.

In our opinion, the financial statements referred to above present fairly the consolidated financial position of Occidental Petroleum Corporation and subsidiaries as of December 31, 1971 and 1970, and the results of their operations and the source and use of funds for the years then ended, in conformity with generally accepted accounting principles consistently applied during the periods.

Arthur Andersen & Co.

ARTHUR ANDERSEN & CO.

Los Angeles, California,
February 17, 1972.

Ten Year Statistical Summary of Consolidated Operations

Amounts in thousands

	1971	1970	1969
Oil and gas sales revenues:			
International production and exploration	\$ 367,012	\$ 283,362	\$ 299,991
International refining, marketing and transportation . . .	736,197	640,375	396,205
North America	578,776	541,782	545,067
Chemical sales and revenues	705,036	657,980	625,322
Coal sales and revenues	247,187	262,163	192,513
Net sales and other revenues			
Reflecting poolings of interests	\$2,635,208	\$2,385,662	\$2,059,098
As originally reported	\$2,635,208	\$2,385,662	\$2,059,098
Income (loss) before extraordinary items	\$ (48,018)	\$ 175,234	\$ 174,835
Extraordinary items	(18,984)	—	—
Net income (loss) including sales of coal lease rights in 1970 and 1969*			
Reflecting poolings of interests	\$ (67,002)	\$ 175,234	\$ 174,835
As originally reported	\$ (67,002)	\$ 175,234	\$ 174,835
Primary earnings per share including sales of coal lease rights in 1970 and 1969* ¹			
Before extraordinary items	\$ (1.26)	\$ 2.92	\$ 2.97
Extraordinary items	\$ (0.35)	—	—
Total			
Reflecting poolings of interests	\$ (1.61)	\$ 2.92	\$ 2.97
As originally reported ²	\$ (1.61)	\$ 2.92	\$ 3.00
Fully diluted earnings including sales of coal lease rights in 1970 and 1969*	— ³	\$ 2.53	\$ 2.54
Cash dividends paid per common share, as originally reported ²	\$ 1.00	\$.99	\$.89
Total assets as originally reported	\$2,580,028	\$2,655,936	\$2,213,506
Operating cash flow as originally reported	\$ 150,606	\$ 282,044	\$ 247,512
Net income excluding sales of coal lease rights*.		\$ 170,775	\$ 165,902
Primary earnings per share excluding sales of coal lease rights*		\$ 2.83	\$ 2.80
Fully diluted earnings per share excluding sales of coal lease rights*		\$ 2.47	\$ 2.41

*See dual presentation and special note on consolidated statements of operations.

¹Based on average number of shares outstanding after giving effect to (a) stock dividends issued through 1970 and (b) the issuance of common shares in connection with poolings of interests.²Adjusted for stock dividends and 3-for-1 stock split.³Fully diluted loss per share has not been shown since the effect would be antidilutive.

1968	1967	1966	1965	1964	1963	1962
\$ 240,384	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
359,350	—	—	—	—	—	—
481,626	513,705	506,830	466,970	426,448	342,430	289,596
571,465	520,155	519,865	450,362	413,635	273,806	264,863
153,967	139,424	135,627	109,890	112,112	93,604	80,884
\$1,806,792	\$1,173,284	\$1,162,322	\$1,027,222	\$ 952,195	\$ 709,840	\$ 635,343
\$1,806,792	\$ 825,740	\$ 658,544	\$ 81,105	\$ 44,984	\$ 32,724	\$ 12,307
\$ 134,138	\$ 55,396	\$ 53,878	\$ 46,921	\$ 39,374	\$ 29,718	\$ 25,711
—	12,861	5,685	4,125	4,255	6,148	7,383
\$ 134,138	\$ 68,257	\$ 59,563	\$ 51,046	\$ 43,629	\$ 35,866	\$ 33,094
\$ 134,138	\$ 45,548	\$ 22,730	\$ 14,736	\$ 9,381	\$ 6,656	\$ 6,038
\$ 2.30	\$.70	\$.77	\$.61	\$.44	\$.16	\$.05
—	.32	.16	.12	.14	.20	.25
\$ 2.30	\$ 1.02	\$.93	\$.73	\$.58	\$.36	\$.30
\$ 2.32	\$.98	\$.66	\$.63	\$.43	\$.34	\$.38
\$ 2.00	—	—	—	—	—	—
\$.36	\$.25	\$.22	\$.16	\$.14	\$.14	—
\$1,788,245	\$ 779,132	\$ 445,270	\$ 204,705	\$ 113,462	\$ 50,484	\$ 19,767
\$ 218,010	\$ 70,288	\$ 35,113	\$ 11,217	\$ 5,729	\$ 10,254	\$ 9,735

Subsidiaries Divisions and Affiliates

Oil and Gas Exploration and Production Division

Division Headquarters
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Regional Offices:

Denver, Colorado;
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Mitchell Cotts House, P.O. Box 2134
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Occidental Petroleum of Nigeria
Wesley House, 21-22 Marina
P.O. Box 3992
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Avenida Arequipa 2450
P.O. Box 825
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Occidental of Umm Al Qaywayn, Inc.
P.O. Box 27
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Occidental Petroleum of Saudi Arabia, Inc.
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Occidental of Trinidad, Inc.
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Centro Comercial Avenida Libertador,
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Domestic Crude Oil Marketing Division

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Houston, Texas 77027

Regional Sales Offices:

Houston, Texas; Midland, Texas;
Denver, Colorado

Real Estate Division

Occidental Petroleum Land and
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International Oil Marketing, Refining and Transportation Division

Concord Petroleum Corporation
Boyle Building, Church Street
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92 Neuilly-sur-Seine, France

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Occidental Oel GmbH
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Raffinerie Belge de Petroles S.A. (RBP)
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2000 Antwerp, Belgium

Steenkolengroot Handel Willem
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VIP Petroleum Ltd.
Fairbairn House, Ashton Lane
P.O. Box 1
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Coal Division

Island Creek Coal Company
1501 Euclid Avenue
Cleveland, Ohio 44115

Operating Divisions:

Holden, West Virginia; Keen Mountain,
Virginia; Madisonville, Kentucky;
Tire Hill, Pennsylvania

Chemical Division

Hooker Chemicals and Plastics Division

Hooker Chemical Corporation
1515 Summer Street
Stamford, Connecticut 06905

Industrial Chemicals Division

Buffalo Avenue at 47th Street
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Niagara Falls, New York 14302

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Durez Division

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North Tonawanda, New York 14120

Ruco Division

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Cueros Artificiales, S.A. de C.V. (Cueros)
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Naucalpan de Juarez
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Estado de Mexico, Mexico

Eriez Produtos Magneticos e
Metalurgicos Limitada (Eriez)
Avenida Ipiranga, 318, Bloco B
Caixa Postal 2632
Sao Paulo, Brazil

Plasticos y Derivados C.A. (Playdeca)
Final de la Calle Bolivar
Baruta, Edo. Miranda
Apartado Postal 62410
Caracas, Venezuela

Plastiflex C.A. (Plastiflex)
Final de la Calle Paez
Baruta, Edo. Miranda
Apartado Postal 62410
Caracas, Venezuela

Sinteticos S.A.
Calle 31 No. 44-13
Apartado Aereo No. 839
Medellin, Colombia

Vulcan Material Plastico S.A. (Vulcan)
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Oxy Metal Finishing Division

Oxy Metal Finishing Corporation
21441 Hoover Road
Warren, Michigan 48089

Divisions:

The Udyllite Company
21441 Hoover Road
Warren, Michigan 48089

The Parker Company
32100 Stephenson Highway
P.O. Box 201
Madison Heights, Michigan 48071

The Sel-Rex Company
75 River Road
Nutley, New Jersey 07110

International Division

75 River Road
Nutley, New Jersey 07110

Oxy Metal Finishing (Europe) S.A.
Avenue de l'Etang 65, 1211 Chatelaine
Geneva, Switzerland

Oxy Metal Finishing (Great Britain) Limited
Sheerwater
Woking, Surrey, England

Electroplating Engineers (Nederland) N.V.
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Effluent Control International Limited
Sheerwater
Woking, Surrey, England

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Taitoh-ku, Tokyo, Japan

Electroplating Engineers of Japan Limited
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Limited (HCAP)
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Lidcombe, N.S.W. 2141, Australia

Hooker Chemical (N.Z.) Limited
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Avondale, Auckland 7, New Zealand

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Villa Martelli
Buenos Aires, Argentina

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Caixa Postal 8179
Sao Paulo, Brazil

Oxymex S.A. de C.V.
Norte 45 No. 991
Col. Industrial Vallejo
Mexico 16, D.F.

Agricultural Chemicals, Fertilizer and Sulphur Division

Occidental Chemical Company (Oxychem)
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Houston, Texas 77027

Regional Headquarters:

Lathrop, California; Houston, Texas;
Sioux Falls, South Dakota; Springfield,
Ohio; Jacksonville, Florida

Feed Products Division
79 Progress Parkway
Maryland Heights, Missouri 63042

International Ore & Fertilizer Corporation
(Interore)
380 Madison Avenue
New York, New York 10017

Jacksonville Bulk Terminals, Inc.
1301 Wigmore Street
Jacksonville, Florida 32206

Jefferson Lake Sulphur Company
4671 Southwest Freeway
P.O. Box 1185
Houston, Texas 77027

Leather's Chemical Company Limited
Northbrook Works
100/102 Canal Road
Bradford BD1 4RB, Yorkshire, England

Occidental Chemical Company of Texas
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Houston, Texas 77007

Suwannee River Phosphate Division
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White Springs, Florida 32096

Garrett Research and Development Division

Garrett Research and Development
Company, Inc.
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Occidental Corporation of Saudi Arabia
P.O. Box 572
Dammam, Saudi Arabia

Minerals Division

Occidental Minerals Corporation (Oxymin)
6073 West 44th Avenue
Wheat Ridge, Colorado 80033

International Hotel Division

Occidental Hotel Corporation
Branch Office:
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London S.W. 1E 5BY, England

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550 Sixth Avenue S.W.
Calgary 1, Alberta, Canada

Occidental International Corporation
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Washington, D.C. 20006

Registrars

Bank of America
National Trust & Savings Association
Los Angeles, California

First National City Bank
(Common and \$4.00 Convertible
Preferred Stocks only)
New York, New York

Chemical Bank New York Trust Company
(\$3.60 and \$2.16 Convertible
Preferred Stocks only)
New York, New York

Montreal Trust Company
(Common Stock only)
Toronto, Ontario, Canada

Transfer Agents

Security Pacific National Bank
Los Angeles, California

The Chase Manhattan Bank
National Association
New York, New York

Canada Permanent Trust Company
(Common Stock only)
Toronto, Ontario, Canada

Debenture Trustee

Bank of America
National Trust & Savings Association
Los Angeles, California

Authentication Agent

Bankers Trust Company
New York, New York

Auditors

Arthur Andersen & Co.
Los Angeles, California

Stock Exchange Listings

Common Stock
New York Stock Exchange
Pacific Coast Stock Exchange
Amsterdam Stock Exchange
Antwerp Stock Exchange
Brussels Stock Exchange
Dusseldorf Stock Exchange
Frankfurt Stock Exchange
Hamburg Stock Exchange
The Stock Exchange, London
Toronto Stock Exchange

Convertible Preferred Stock
New York Stock Exchange

Debentures
New York Stock Exchange

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*OXY, HOOKER, SEL-REX, UDYLITE, PARKER,
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